

**MICHIGAN FOREST FINANCE AUTHORITY
DRAFT
BOARD MEETING MINUTES
March 8, 2006**

A Board meeting of the Michigan Forest Finance Authority ("Authority") was held on March 8, 2006, at 2:00 p.m., at the MSU Kellogg Hotel & Conference Center, Room 62, East Lansing, Michigan 48823.

MEMBERS PRESENT:

Donna Donovan (representing State Treasurer)
Rebecca Humphries, Director, Department of Natural Resources (DNR) (Vice Chair)
James Smiertka (representing David Hollister)
Paul Eisele
Garret Johnson
Karen Potter-Witter
Kelvin Smyth
Warren Suchovsky
Shawn Hagan

OTHERS PRESENT:

Terrence P. Grady, Attorney General's Office
Lisa Hagan, Attorney General's Office
Lynne Boyd, Chief, DNR, FMFM
Ron Murray, DNR, FMFM
Bill Bobier
George Bergmon

CALL TO ORDER

Rebecca Humphries called the Board meeting of the Authority to order at 2:00 p.m. Director Humphries welcomed members to the meeting.

APPROVAL OF MINUTES OF DECEMBER 8, 2005 MEETING

There were no comments, additions or deletions to the Draft Minutes of the December 8, 2005 meeting.

MOTION: Paul Eisele moved, seconded by Shawn Hagan, to approve the Minutes of the December 8, 2005 meeting as presented. All in favor by voice vote.

RESOLUTION 2006-1: RESOLUTION TO AMEND THE BYLAWS

Lisa Hagan was recognized for a presentation of a resolution approving the changes to the By-Laws.

Lisa Hagan reviewed the changes to the By-Laws, referring members to the strike-over copy of the By-Laws contained in the meeting packet. Kelvin Smyth asked for clarification on page 4, "Section 6. Open Meetings Act. The Authority shall comply with the provisions of the Michigan Open Meetings Act, 1976 PA 267." Terrence Grady responded that this section means in part that the minutes and voting should be available to the public within 8 days of the meeting.

Motion: Paul Eisele moved to approve the By-laws, seconded by Kelvin Smyth, to adopt Resolution 2006-2. All in favor by voice vote.

TIMBER AND MARKETS SUBCOMMITTEE REPORT

Paul Eisele, Chairman, Timber and Markets Subcommittee, reported the subcommittee met on January 31, 2006 (see minutes attached). It reviewed Working Forests for the 21st Century, and analyzed six potential funding activities (see attached list). The subcommittee added rate of return and market columns to the original spreadsheet. The total estimated cost of the projects outlined is \$53.5 million. Ron Murray indicated that the rate of return on the spreadsheet is a ballpark figure and that we must look at relative, rather than absolute values.

Infrastructure Improvements is the biggest single expense item at \$20 million over 5 years. Mr. Eisele indicated the infrastructure improvements are indirect costs in relationship to utilizing the “prizes” at top of spreadsheet which are more typically direct costs. The market demand for Michigan hardwoods is high, especially for Maple. The Board briefly discussed potential for “branding” Michigan Maple. The subcommittee on Timber & Markets will consider this possibility further during subsequent meetings. On the issue of diseases, the subcommittee suggested funds be considered for situations in which they could be leveraged to assist in ~~put to~~ control while promoting job creation as well as general forest health. The area of market development and utilization needs more research.

Karen Potter-Witter indicated that MSU is getting a grant to look at bioenergy. Ms. Potter-Witter will keep the Authority informed of this issue. There is an opportunity for the Authority to work with MSU on bioenergy workshop.

Kelvin Smyth commented that IFMAP moves us away from dependence on a slow, deliberate compartment reviews cycle that is not always efficient for all types of treatments, and is a very worthy project. Ron Murray agreed that IFMAP is a valuable tool, and it keeps Forest Certification in tact.

Paul Eisele pointed out that the subcommittee did not consider recreational values at this time, but focused on more traditional “timber and market” activities in the immediate analysis. Valuing some of the market, and non-market products of the forest won’t be ignored, but will be undertaken at a later time in the analysis.

Ron Murray informed the Authority of a pilot project proposed to US Forest Service on Pigeon River Country State Forest to set up a commercial timber harvest and remove ash and leave stands in good condition in response to the Emerald Ash Borer. To take an ash tree alone is expensive and difficult. Setting up commercial thinning and harvest operations to improve stands overall while accomplishing removal of the ash is much more economical. There is federal funding available next year (\$150,000 for 5 years). Authority could leverage funds if it can match with Forest Service. This pilot project will benefit government and private landowners as a cooperative effort. Ash, alone is not a high value item, but when sold with other species of northern hardwood in a commercial operation, it can be marketed for significant values. The Michigan Department of Agriculture has tried to get people to take only ash from stands, and this approach is not economical without taking other species.

Paul Eisele said that the Authority needs to be ready with a list of projects, if and when, the tobacco funds become available.

The subcommittee's goal is to get comments and lay out a roadmap to develop better cost estimates and work with MSU and other partners.

ASSET PROTECTION AND RESEARCH SUBCOMMITTEE REPORT

Garret Johnson, Chair, Subcommittee on Forest Research & Research, reported meeting via teleconference on February 22, and March 1, 2006. The subcommittee also reviewed 21st Century Working Forests document, looked at alternate investments, drafted a Charter (see attached) outlining its purpose and objectives, and drafted a Statement (see attached) of urgency and need.

Discussion ensued on Charter, Purpose," ...(a) protect the health and vigor of Michigan's forest resources, including maintaining contiguous forested landscapes and averting forest fragmentation and parcelization; ...". Mr. Johnson indicated this means possibly purchasing easements, etc., using funds creatively, taking an active view, not necessarily just research. Mr. Johnson further indicated that the subcommittees, and the combined Board, must look at timber supply, access to markets, asset protection and research and development, using an enterprise approach.

Warren Suchovsky stated that contiguous forested landscapes work in roughly a 10-year cycle, and we need to identify unintended consequences of ownership changes and what could be done to mitigate their impacts.

The Subcommittee's Statement asks that EAB and Beech Bark Disease be a priority for the Department, strongly suggesting FDF funds be allocated by the DNR to these causes.

Lynne Boyd, Chief, DNR-FMFM, indicated that the budget is already allocated until FY 08, so the Department is not able to commit more funding for EAB and Beech Bark Disease at this time. Ms. Boyd will report back to the subcommittee on what the Department is already doing in these areas, and the subcommittee will present that information to the Authority.

Warren Suchovsky further noted that the Statement was drafted to emphasize seasonality and the value of timing.

Rebecca Humphries indicated that the Department is aware that the budget does not coincide with field needs, and that funding is diminishing while needs are rising.

DISCUSSION ON SUBCOMMITTEE PROPOSALS

Both subcommittees expressed an urgency to act on issues of importance to the Authority.

The Asset Protection and Research Subcommittee found it especially important to tackle operational issues of the Authority, including what the Authority can do, mechanisms for release of funds, investments, and timing were all questions in the minds of most Board members. Garret Johnson asked for clarification on:

- Forest Development Fund – How it operates
- Statutory capacity to bond on future revenues
- \$26 million grant from tobacco industry

Terrence Grady indicated Authority is dealing with a hybrid statute, amended from something on the books already. The Authority has broad powers. The Authority has bonding powers, with no source of money now, but the Authority will be receiving funds generated by selling tobacco securitization bonds. These bonds are to be marketed in early May, although they may not remain on schedule. If bonds get sold, there will be \$26 million for the Authority and the DNR to work with. If the bond were sold by this Authority, Mr. Grady advised the Authority to keep in mind that bond proceeds must be expended fully within 3 years.

James Smiertka asked if Authority gets money, what can Authority do with it? Can it contract, independently, for EAB work, for example.

Terrence Grady indicated the Authority has no contracting power. The DNR is the agent for the Authority. He further guided a discussion on how decision making takes place. Board has to come to decision on what Authority wants to do, and Attorney General's Office will check, on a case by case basis, Statute language to see if it's within Authority's powers. The Authority must work collectively with State departments to see how things will be done.

Rebecca Humphries suggested we put an overview of the DNR's current use of the Forest Development Fund on next Agenda to discuss it with the Authority as it relates to bonding and to look at the Statute.

A globalization discussion ensued. Paul Eisele indicated that he was unsure what to do with the information provided at the last Board meeting regarding globalization. Rebecca Humphries indicated that the presentation was intended as a foundation for raising the issue to the Authority. Ron Murray stated we need to look at global issues in China, Maine, etc. Shawn Hagan brought up the Chicago climate exchange issue.

Garret Johnson informed the Authority that Bill Ginn, author of Business Relations Strategies in Conservation, would be available in June to address the Authority on the relationship of tax policy changes, management of state forest systems and investment ideas in light of his experience with the State of Maine.

NEED FOR SPECIAL MEETINGS OF THE BOARD

Director Humphries asked if the Authority wanted to schedule more frequent full meetings due to so much cross over in issues of the subcommittees and the need to explore more background materials. It was agreed that special monthly meetings would be scheduled and this topic would be revisited at a later date.

Special meetings were scheduled for:

April 12, 2006, 2:00 p.m.-5:00 p.m.

May 10, 2006, 2:00 p.m.-5:00 p.m.

AGENDA TOPICS FOR NEXT MEETING

FDF today – DNR

EAB Status – DNR

Status – securitization tobacco funds – Treasury

Bonding – bond counsel

FMAC/MFFA coordination

Upper Great Lakes forests – advantages we may be overlooking
Underpinning study

INFORMATION DISTRIBUTION PROTOCOL

Meeting information will be distributed to most members via email. Warren Suchovsky will receive large documents via a mailed CD. Paul Eisele requires pdfs file of PowerPoint or Excel documents, or a mailed CD.

OTHER ACTION

Director Humphries asked if there were any more items for action. Garret Johnson informed the Authority of Legislation (House Bill 5628 (H-1) passed by the House on February 8, 2006, pending in the Senate, that would take \$4.4 million out of FDF, putting 50% in local government, and 50% to the school aid fund. Mr. Johnson passed out a Draft Resolution (attached), and suggested that the Authority communicate its opposition to this Bill. Discussion ensued as to whether Board members would be in a position to vote without regard to their respective Department's position on this Bill. Mr. Johnson urged Authority to look at this Legislation, but that the resolution will not be voted on by Authority.

Paul Eisele moved to table the motion on the resolution, seconded by Warren Suchovsky. All in favor by voice vote.

The Authority established that Board Members be given at least one week advance notice of agenda items and resolutions.

PUBLIC COMMENTS

George Berghmon commented that on the issue of marketing and branding, he has contacts in Pennsylvania that have gone through a similar branding process. If the Authority is interested, he will ask the Pennsylvania team to share their experiences with the Authority.

Bill Bobier commented that he was part one of the legislative sponsors of the enabling legislation that created the Michigan Forest Finance Authority, and he was glad to see it come about again. He advised the Board to plan for flexibility and that there will not be much time to deliberate on legislative issues that affect the Authority.

ADJOURNMENT

Kelvin Smyth moved, seconded by Warren Suchovsky, to adjourn the meeting of the Authority. All in favor by voice vote. The meeting was adjourned at 4:30 pm.